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Update of Peru Handbook

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INTRODUCTION

Since independence was declared in 1821, Peruvian history has been marked by turbulence and civil strife. There is a tradition of arbitrary and frequently unconstitutional government, and fewer than one third of the administrations have had a constitutional base. In the past decade, there have been two military overthrows and four different governments. The social structure, one of the most rigid in Latin America, is now entering a period of change under a military government that is dedicated to creating a thorough-going social revolution.

Pressure for political and social change and for amelioration of the conditions of the Indian communities, which make up 45% of the population, has been mounting for more than a generation and was one of the many factors behind the military coup in 1968. This pressure has stemmed from the growth of the middle class, the rising importance of organized labor, the increasing participation of mestizos (persons of mixed Indian and white parentage) in political activity, the extensive migration of Indians from the highlands to coastal cities, and the rapid increase in population. A resolution of the resulting political tensions is not likely to be accomplished for many years.

The military government led by General Juan Velasco Alvarado, which took over on 3 October 1968, began as a revolutionary one in the sense that it sought, or professed to seek, profound and lasting changes in Peru's political, economic, and social institutions. It is convinced that Peru's socio-economic development cannot be ensured merely by modifying existing institutions or machinery, but only by restructuring all phases of Peruvian society. While much of the program stems from the officers' perceptions of the extreme inequities of Peruvian life, its method of operation reflects a strong belief in the superiority of the military institution as a planner, organizer, and executive.

The government has tried hard to develop a popular base of support on a broad range of policies. It has used nationalistic appeals to unite Peruvians, first against a foreign adversary (the US, and particularly US economic "exploitation"), and then against certain domestic economic interests. Thus far, this approach and its populist measures have been successful in building support. President Velasco has come to realize, however, that highly emotional nationalistic appeals discourage foreign and domestic investors on whom the regime depends for resources to implement its programs. Thus,

since the expropriation of the International Petroleum Company properties and the announcement in mid-1969 of major agrarian reform and water rights measures, the invocation of nationalism has been confined to fewer and fewer calls for patriotism and support for Peru's development. The government's growing pragmatism does not represent a dilution of the regime's commitment to basic reform, but the process of compromising on programs and on pacing has already begun. To the extent that this diminishes the friction between the government and its potential opposition, the pragmatic approach may come to have increasing appeal. At the same time, the regime appears to believe that its success will depend in large part on its ability to appear strong and resolute.

As part of the government's campaign to assert its "independence," it has increased its contacts with Communist countries and has announced its intention of forming diplomatic ties with Communist China. The administration has opened commercial relations with Communist China and Cuba and has indicated that it thinks the question of Cuba's relationship to the OAS should be re-examined.

I. GEOGRAPHY

Location and area

Peru, located on the west coast of South America immediately south of the Equator, is the third largest country in South America and the fourth largest in Latin America. Peru is bordered on the north by Ecuador and Colombia, to the east by Brazil and Bolivia, and by Chile on the south. The country has approximately 1,500 miles of coastline along the Pacific Ocean and claims territorial jurisdiction extending 200 nautical miles offshore. Its maximum east-west dimension is about 800 miles. Its area, 496,000 square miles, is about one-sixth the size of the United States (less Alaska and Hawaii).

Climate

The climate of Peru is extremely diversified. The coastal area is relatively cool and arid, the interior plain is hot and humid, and the highlands have a wide range of climatic characteristics. The coastal area is extremely dry, with annual amounts of precipitation mostly below five inches; in the Andes, annual precipitation amounts range from less than five inches to more than 140 inches on the eastern slopes in central Peru. Many locations average less than one inch. The higher peaks are snow covered all year. Most of the precipitation falls in December through March; May through September are the driest months. Area temperature variations are pronounced, although seasonal variations are small. The interior plains are the hottest. The coast is significantly cooler, and the lowest temperatures occur in the mountains.

Topography

Peru has four major terrain features: an arid coastal plain in the northwest; a northwest-southeast highland area, which is part of the Andes mountain chain; a broad, interior plain in the east; and an elevated basin, the Altiplano, in the southeast. The highland area and the interior plain are the most extensive and form over 90% of the country. The arid coastal plain is generally flat to rolling and contains small, scattered groups of hills. The highlands (or sierra) consist mainly of high, rugged mountains and hills, a narrow discontinuous coastal plain, and widely separated basins and valleys. Elevations range from sea level to 22,205 feet; more than one-third of the highlands is over 12,000 feet. The interior plain (La Montana), a part of the Amazon basin, consists of densely forested, predominantly flat to rolling

plains and a few hill areas. The Altiplano, a continuation of the elevated basin of Bolivia, consists of flat to rolling plains located along the shores of Lake Titicaca. Elevations range from 12,250 feet at Lake Titicaca to about 14,000 feet in the hills.

Natural resources

Although Peru is a relatively poor and underdeveloped country, it is endowed with extensive forest reserves and mineral deposits, large fish resources (especially anchovy used for fishmeal), and the potential for considerable hydroelectric power generation. Nearly 98% of Peru's large timber resources are located in the interior plain. The forests, which are mainly government owned, contain good-quality tropical and subtropical evergreen broadleaves and a few species of conifers. The marketable stand is estimated at 4.2 billion cubic meters, but only a limited area is accessible for commercial extraction because of poor to nonexistent transportation systems.

Peru is the second largest producer of copper, lead, zinc, and silver in Latin America. Mining is one of the most highly developed sectors of the economy and is mainly export oriented. Peru also has substantial reserves of petroleum and coal. Proved reserves of crude oil, estimated at 600 million barrels, are located mainly along the northern coast and the central part of the interior plain. Both bituminous and anthracite coal are found in the sierra on the central portion of the western slopes of the Andes. Reserves are estimated at about 400 million tons.

Human resources

The population in July 1971, as estimated by the US Census Bureau, was 14,013,000 (excluding the jungle Indians). The present average annual rate of increase is 3.1%, slightly higher than the Latin American average. The US Census Bureau estimates that by 1981 Peru's population may increase to a range of 18.3 to 19.8 million. The population density of about 29 inhabitants per square mile is considerably less than half the US density, but is close to the South American average.

In both racial composition and way of life the country is predominantly Indian. An estimate of the ethnic breakdown in 1959 listed 46% of the population as Indian, 38% as mestizos (mixed white-Indian), 15% as white, and 1% Asians, Negroes, and mulattoes. The whites and mestizos live primarily in the coastal lowlands, the northern third of the Andean highlands, and the larger urban areas. The Indians are heavily concentrated in the

southern two thirds of the sierra in the less urbanized and more remote communities. The Asians and Negroes are along the coast. The whites hold a dominant position far out of proportion to their numbers, and the majority are concentrated on the coast, particularly around Lima and in a few of the larger cities. The mestizos dominate the social scene in the sierra and also act as traders and entrepreneurs among the rural sierra Indians.

Two major shifts in the population are occurring; there is a growing flood of migration to the coast from the highlands and a flow from rural to urban areas. Many inhabitants of the sierra, especially the southern highlands where subsistence farming and extremely low income levels and living standards prevail, are moving to the coast and principal cities in search of better employment opportunities and living conditions.

II. ECONOMIC BACKGROUND

Growth rates and trends

During 1951-1966, Peru's gross domestic product (GDP) grew at an average annual rate of 5.7%—one of the highest in Latin America. Beginning in 1967, however, the rate declined, falling to a low of less than 2% in 1969. In 1970 there was a recovery, with the rate of growth rebounding to about 6%. Per capita GDP is about \$500, below the average for Latin American.

Peru's economic growth has been paced by the expansion of exports, particularly fishmeal, sugar, cotton, and metals. During the 1960s, the fishmeal industry grew rapidly, becoming the largest in the world. The production of export crops, except sugar and coffee, and of metals stagnated, however, because direct foreign investment remained low, with actual disinvestment occurring in 1968, 1969 and 1970. Economic recovery in 1970 resulted largely from excellent performance in the fishing and agricultural sectors, sugar and coffee, and increased public investment in irrigation, transport infrastructure, school construction and water and sewage. In 1970 total investment amounted to about 16% of GDP.

Foreign investment has fallen off since the military came to power because investors are wary of the intentions of Velasco's "revolutionary" government. Increasing government pressure on foreign investors to develop their long-held mineral concessions resulted during 1970 in the start of work on the \$355-million Cuajone copper project and the \$12-million Madrigal mine. In addition, work continued on a \$25-million expansion program at the Marcona iron mine, the Belco Petroleum Company initiated a \$20-million investment program, and Occidental Petroleum Company signed a contract to invest \$59-million in exploration for oil along the Peru-Ecuador border. Despite these developments, there was a net outflow on total direct investment of some \$15 million, as in 1969. Moreover, the book value of direct foreign investment fell sharply because of the negotiated nationalization of foreign-owned equity in domestic banks and an International Telephone and Telegraph Company subsidiary and the sale of several US-owned properties to Peruvians.

Main sectors—trends in industry and agriculture

Peru's economy is essentially agrarian. Almost half of the labor force is engaged in crop farming and livestock raising, but agriculture contributes only about 15% of GDP and 16% of export earnings. Sugar, cotton and

coffee are the principal export crops. Because of the hostile climate and terrain, the area of usable agricultural land is small. Much of the agricultural output is produced on subsistence farms isolated from urban areas. Partly for this reason, the marketing of crops and livestock products has lagged behind the growth of the urban population, and Peru is becoming increasingly dependent on imported foodstuffs to satisfy urban demand.

Agricultural output has grown slowly since 1960, with an average annual increase of 2.5% compared with the 3.1% growth rate of population. The expansion of agricultural output is restrained mainly by the high cost of placing more land under cultivation, which requires the construction of irrigation facilities and access roads to remote lands.

Peru's livestock industry is poorly developed. Most livestock are raised in the sierra on poor natural pastureland under low standards of management. Sheep are far more numerous than cattle, and goats outnumber hogs. Livestock numbers have shown little growth since 1960, with the exception of hogs and poultry. Since output is insufficient to meet consumption needs, large amounts of meat, fats, and dairy products are imported.

Manufacturing has been the most dynamic sector of the economy during the 1960s. Industrial production more than doubled between 1960 and 1970 and the contribution of the sector to GDP increased from 16% to almost 20%. The industrial sector has also been able to absorb an increasing proportion of the labor force, providing employment to 15% of the economically active population in 1970, against 13.5% in 1961. The sector consists principally of agricultural industries, fish and mineral processing, and the assembly of machinery and durable consumer goods from imported components.

Industrial production expanded at an annual average rate of about 9% during the first half of the 1960s. Although the average annual rate of growth for the 1965-1969 period was almost 6%, the rate of increase each year became smaller, until in 1969 industrial output rose by only 2.5%. The low rate for 1969 was due to a decline of more than 16% in fishmeal production. Industrial production in 1970 appears to have made a substantial recovery led by a strong gain in the fishmeal industry.

Transportation and communications

The transportation and communications systems are sparse and of low quality. The best facilities are concentrated in the narrow coastal plain and on the western slopes of the Andes. The major through transportation route,

the Pan American Highway, follows the coastal plain. East of the Andes, the Amazon and its tributaries are virtually the only means of surface transportation. The Amazon waterway system and the transportation network west of the Andes are linked by a single road, and at times it has been necessary to transport bulky items from the west coast to eastern Peru by ship via the Panama Canal and the Amazon.

In general, highways are the basic form of transportation in the west. Forming the backbone of the network are three arterial routes, chief of which is the Pan American Highway that extends from the Chilean border to the Ecuadorean border. In the north this highway branches to provide two connections with Ecuador, and in the south another branch of the highway leads to the Bolivian border. The second arterial route, the Central Trans-Andean Highway, extends generally northeast from the coastal port of Callao to the river port of Pucallpa; and the third, running generally parallel to the coastal route, connects at Puno with the Pan American Highway branch to Bolivia, and at La Oroya with the Callao-Pucallpa route. Highways provide international connections with three of five neighboring countries. There are two connections with Ecuador, one with Chile, and one with Bolivia. There are no highway connections with Colombia or Brazil.

Inland waterway transport is the only practicable means of surface transportation in most of eastern Peru. Major inland waterways comprise the extensive Amazon system and, in the southeast, Lake Titicaca. The Amazon system includes all of the important rivers east of the Andes. Iquitos, the Amazon terminus of shipping from the Atlantic Ocean, is the focal point for the river traffic and the chief distribution center for eastern Peru. The Amazon system provides 5,400 miles of navigable waterways with depths adequate for large river craft. The most important streams of the system are the Amazon and its confluents, the Rio Marañon and the Rio Ucayali. The Rio Putumayo rises in the Colombian Andes and flows along the Colombia-Peru border for 738 miles before joining the Amazon in Brazil. It is navigable perennially by steamers of 40-ton capacity and provides access to Ecuador. The Rio Napo rises in Ecuador and is about 600 miles long, of which 268 miles lie within or border Peru. The river is perennially navigable by launches of three to four foot draft. Lake Titicaca is the highest body of navigable water in the world. With steamer service over a 130-mile course between railheads at Puno and Guaqui, Bolivia, the lake provides an international waterway link in the railroad access route from the Peruvian Pacific port of Matarani to La Paz, Bolivia.

Peru, with about 2,230 route miles, has the sixth largest rail system in South America. The most important railroads are the 1,080 miles of standard-gage lines owned by the Peruvian Corporation, the largest single owner of

railroads in the country. Over-all, these lines—the 380-mile line between Callao, Lima, La Oroya and Huancayo, and the 700-mile link between Arequipa, Juliaca, Cuzco, and Puno—are in the best condition and carry most of the traffic.

Five scheduled airlines operate in Peru, all of them privately owned except for the Commercial Air Transport Service (SATCO), which is the commercial arm of the Peruvian Air Force. In addition, there are about ten nonscheduled operators and 15 miscellaneous air-work companies. The best airfields are evenly distributed along the coast and the Andes region; however, the secondary airfields are more scattered in the Andes region. The south-central jungle areas of the eastern lowlands have many simple airstrips along the rivers.

Peru has one principal port—Callao. Secondary ports include Chimbote, Matarani, San Juan, and Talara. All are on the Pacific coast except for Iquitos, which is on the Amazon River. Most of the coastal ports have open roadsteads and generally unprotected harbors.

Merchant shipping is important to Peru in providing the major element of transport for foreign trade, for local distribution along the 1,500 miles of coast, and for linking the nation, via the Amazon River port of Iquitos, with the Atlantic coast ports. The merchant fleet has accounted for about 5% of the total annual volume of foreign trade, although by 1970 the government was taking measures to assure that a larger percentage of such trade is carried by Peruvian ships. By law, the coastal trade is carried exclusively in Peruvian ships, which compete with coastwise trucking for some types of cargoes.

The distribution of telecommunication facilities is uneven. A moderate concentration of wire and radio-relay facilities has developed along the coast; only in the southern third of the country does telephone service extend into the mountainous interior. The easternmost third of Peru, largely Amazonian jungle, is served by scattered high frequency radiocommunication stations. Lima serves as the functional control center for most international services and as the major switching center for domestic traffic. The domestic system provides only minimum service to the government and the public. Major programs to improve local and interurban telecommunications have failed to progress fast enough to satisfy growing demands for suitable service. International service always has been superior.

Government economic policy and financial system

The military under General Juan Velasco seized power during a period of severe economic difficulties. The economy had grown at a relatively fast

pace during the early 1960s, but rapidly rising prices, growing budget deficits, and increased problems with the balance of payments caused a loss of business confidence and a flight of capital. A devaluation in September 1967 was not followed by the necessary stabilization measures until July 1968, when President Belaunde acted under special decree powers. By September 1968, Belaunde's strict austerity program seemed to be bringing the inflation under control, but the confidence of investors remained low because of widespread doubts that the President could continue the program after his decree powers expired.

President Velasco's finance ministers at first continued and strengthened Belaunde's program. Strict economic measures and energetic tax collection enabled the government to reduce substantially the 1968 budget deficit. The austerity program also increased unemployment in the nonagricultural sectors, however, and imports were restricted because of government policy.

After two years of austerity, budget policy became expansionary during 1970. Investment expenditures increased by 39% while current expenditures rose about 12%. Because revenues increased only 11%, the budget deficit widened considerably, although it remained much smaller than in 1966-68. Despite the lack of new foreign loans to finance the budget deficit, little recourse to inflationary bank credit was necessary. The forced repatriation of Peruvian bank deposits abroad greatly increased domestic liquidity and allowed the government to place about \$80 million in domestic bonds, covering almost the entire deficit.

The Velasco government has taken several steps to increase government ownership of production facilities. With the expropriation of the properties of the International Petroleum Company, a large share of petroleum production has come under government ownership. The nationalization of a number of large commercial farms under the agrarian reform program has greatly expanded government ownership in agriculture, at least until the farms are redistributed to cooperatives and landless peasants.

In April 1970 the government unveiled new legislation intended to give the Peruvian state broad new powers in areas hitherto the preserves of private (largely foreign) investors. The new mining law establishes, among other things, that all marketing of minerals produced in Peru will be performed by the state, which will also establish sale prices. A new Industrial Law states that foreign investors will be guaranteed the recovery of their capital investment plus a "reasonable" profit within a fixed period of years.

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No Foreign Dissem

After that period, the enterprises are to come under Peruvian private, state, or mixed control and ownership.

Peru's banking system consists of the Central Reserve Bank of Peru, the National Bank (the depository for central government funds), several government-owned investment and savings banks, a government-owned mortgage bank, private commercial banks, and private savings and loan associations. The Central Reserve bank, which is responsible for the formulation and implementation of monetary policy, has the power to regulate interest rates, set reserve requirements, determine rediscount rates, issue coinage and notes, and conduct open-market operations. It also is responsible for carrying out foreign exchange policy. The military government has worked out a program of negotiated nationalization for the foreign-owned equity in the banking system.

Foreign trade

The Peruvian economy is highly dependent on foreign trade. During the past decade, exports have averaged about 20% and imports about 22% of GDP. Imports provide most of Peru's capital goods and a significant share of its industrial materials and food. Minerals and metals make up almost half of the total value of Peru's exports, fishmeal and other fish products 33%, and agricultural products 16%. A few manufactured items are exported.

Between 1960 and 1967, imports increased by almost 130%. In 1968, however, imports declined sharply as a result of the 1967 devaluation, tightened import restrictions, a slowdown in investment, and a drawing down of inventories. Although the level of total imports has fluctuated widely in recent years, little change has occurred in their commodity composition. The largest was an increase in imports of raw and intermediate materials from 25% of total imports in 1966 to 34% in 1970. Capital goods have continued to make up about one third of imports.

Although the United States remains Peru's single most important trading partner, the US share has been gradually declining over the past decade. In 1969 the US purchased 35% of Peru's exports and supplied 31% of its imports. Trade with Western Europe accounted for about one third of both exports and imports. Sales to Japan in 1969 accounted for about 16% of total exports; imports represented only 7% of the total. Trade with Communist countries represented only 2% of imports and 4% of exports in 1969. Exports to these countries, mostly Poland, East Germany, and Hungary, consist almost entirely of fishmeal. Peru's only important import from the Communist area is Chinese rice.

No Foreign Dissem

Peru is a member of the General Agreement on Tariffs and Trade (GATT) and was one of the original signatories of the Treaty of Montevideo which established the Latin American Free Trade Association (LAFTA). Peru has also participated with Chile, Colombia, Ecuador, and Bolivia in the formation of a regional trade association, and on 23 June 1967 signed an agreement with these countries establishing the Andean Development Corporation.

Peru faces a marked reduction in its trade surplus during the next few years. Export earnings are expected to stagnate, and unless controls are tightened, imports should rise rapidly after being depressed for three years. The volume of mineral exports may rise slightly, but this gain could be offset by further price declines. Fishmeal output has about reached an ecological limit, and the large accrued stocks will tend to hold down prices in the near future. Although Peru has been able to increase fishmeal exports to Communist countries—including recent sales of 105,000 tons to Cuba, 200,000 tons to China, and 200,000 tons to the USSR—the shift of many US and West European consumers to other, less expensive protein sources could force price reductions. Agriculture exports, mainly sugar and cotton, also may decline as growing domestic demand for foodstuffs causes shifts in land use.

Balance of payments

Peru's balance of payments performance has improved markedly since the September 1967 devaluation of the sol. Following a large deficit in 1967, surpluses of \$10 million and \$42 million were recorded in 1968 and 1969, respectively. In 1970 the surplus amounted to an estimated \$259 million. Besides favorable trade factors, this figure reflects the repatriation of \$170 million of foreign holdings by Peruvian residents. In 1970, net international reserves reached an all-time high of an estimated \$410 million.

III. POLITICAL SITUATION AND TRENDS

Historical setting

Since independence was declared in 1821, Peruvian history has been marked by turbulence and civil strife. When Simon Bolivar and his armies withdrew from Peru shortly after independence, struggles for power erupted among the various *caudillos* (strongmen). By the middle of the century, especially under the administration of General Ramon Castilla, great strides had been taken toward internal development and more effective government. These gains were, however, suddenly obliterated by a devastating defeat in the War of the Pacific against Chile (1879-83). The economic consequences were especially severe, and the nation was forced into virtual servitude to foreign banking interests.

By the beginning of the twentieth century there had been a considerable measure of economic recovery spurred by the growth of a vigorous and diversified mining industry and by a modicum of political order imposed by two strong presidents, General Andres Caceres and Nicolas de Pierola. Political parties were also making their appearance at this time. Historically, the first real political party was the Civil Party founded in 1872 by Manuel Pardo to unite the growing forces in opposition to military rule. Although other parties existed during this time, the Civil Party was the dominant political force in the country. Almost all, however, were identified with a dominant personality, a characteristic of Peruvian politics that has held generally true to this day.

By 1919, when Augusto B. Leguia came to power, the old parties were bankrupt, having splintered or lost all public support. Leguia, an ex-president, won the election of 1919 but, suspecting that congress would oppose his election, led a successful military coup and assumed the mandate before his scheduled inauguration. Leguia's ironhanded, sometimes constructive, rule lasted until he was forced out in 1930 following a military rebellion led by Colonel Luis Sanchez Cerro. After a turbulent year of short-lived juntas, Sanchez Cerro assumed the presidency after a closely contested election in which he was opposed by Victor Raul Haya de la Torre, the founder of the American Popular Revolutionary Alliance (APRA). This election marked the entrance into national politics of Haya de la Torre, signaled that APRA had become the best organized national political party, and began the decades-long struggle between APRA and the military, still the most significant elements of the Peruvian body politic. Charging, perhaps with justification, that he had been defrauded in the counting of the ballots, Haya de la Torre led his supporters in open defiance of President Sanchez Cerro first in the Constituent Assembly, then in a massive uprising in Trujillo on 7-8 July

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1932. After being defeated by government troops, Aprista leaders foolishly ordered the execution of some 60 captured army officers and enlisted men. In retaliation several truckloads of Apristas were slain. These bloody encounters created such a gulf between the army and APRA that their basic hostilities have never been overcome. As a result, APRA has never gained the presidency.

Following the assassination of Sanchez Cerro in April 1933, the Constituent Assembly (serving also as a legislative body) named General Oscar R. Benavides to the presidency. Although he proved to be an enlightened ruler favoring economic development and social legislation, he canceled the election results of 1938 as "illegal," when an Aprista-backed candidate won. With his term extended by congress for another year, Benavides ruled by decree and then backed the election of a civilian president Dr. Manuel Prado, in December 1939. Peruvian military leaders then reverted to the traditional role they have when out of power: working in close harmony with the conservative and aristocratic men of wealth and position. They continued this relationship throughout the rule of Prado (1939-1945) and that of his successor, Jose Luis Bustamante y Rivero, until October 1948. In that month, a naval mutiny at Callao, allegedly inspired and led by APRA, was put down with great severity by Bustamante. The President had lost most of his support, however, and the army leaders who had suppressed the Callao rebellion ousted him. The head of the resulting junta was General Manuel Odria, who soon assumed the powers of an autocrat. In July 1949 the Odria dictatorship was legalized by a decree-law that permanently suspended individual guarantees. In July 1950 there was an "election" in which General Odria was the sole candidate; he assumed the presidency for a full six-year term.

Although unquestionably authoritarian, Odria, during his eight years of absolute rule, managed to stabilize the country, especially by strengthening its financial position. In July 1956 he eased his tight rein on the government and permitted free elections, although APRA was barred from participation. Odria's choice of successor, Hernando de Lavalle, was defeated by a wide majority, and Manuel Prado, supported by APRA in return for a promise to legalize the party, took office.

In the next elections—June 1962—Haya de la Torre won a plurality of the vote (32.99%), but barely missed the one third required by the Constitution. Fernando Belaunde of the Popular Action Party won 32.14%, and General Odria 28%, with the remainder scattered among four other contenders. Belaunde immediately charged that the election had been marked by fraud, a cry echoed by the army, even though it had supervised the

election. In the face of insistent demands by the army that he annul the election, President Prado stood by the official canvass of the returns by the National Electoral Board. Since Haya de la Torre, the leading candidate, had not polled 33 1/3% of the votes, the Peruvian Constitution required the Congress to pick the president. In the following weeks, however, Haya de la Torre came to realize that the army would not permit him to occupy the presidency. Therefore, he withdrew and asked his supporters in Congress to vote for Odria. Army leaders who could not tolerate Haya de la Torre himself also refused to let him dictate who would become president. Military leaders, headed by Chief of Staff Ricardo Perez Godoy, an army general, staged a bloodless coup and President Prado was shipped off to exile in Paris.

On seizing power, the military installed a four-man military junta, which held a new presidential election in June 1963. With the tacit endorsement of the military, Belaunde polled more than 708,000 votes to top Haya de la Torre's 623,000 and Odria's 463,000.

Belaunde exerted strenuous efforts in his early years in office to accomplish the programs he had endorsed during his campaign. In spite of his difficulties with an opposition coalition (Apristas and Odriistas) in Congress, he succeeded in enlarging the agrarian reform program of his military predecessors and made a start on the construction of the Andean Highway.

In his last two years, however, Belaunde was beset by a deepening economic crisis following a decline in the price of fishmeal in world markets, which created a serious balance of payments problem. This, together with increased government expenditures, made it impossible to balance the budget and resulted in rapidly mounting inflation. With Aprista cooperation, in July 1968 Belaunde won approval for a wide-ranging financial stabilization program that imposed new and higher taxes and gave the President special powers for 90 days to implement the program. The new program produced an immediate improvement in the nation's financial status and gave some hope to Belaunde that he could weather the crisis.

In August 1968, Belaunde reached an agreement with the US-owned International Petroleum Company (IPC), recognizing Peruvian ownership of the long-contested La Brea y Parines oil fields. This provision of the "Act of Talara" fulfilled one of Belaunde's campaign promises and he regarded it as a major triumph of his administration. In return for title to the oil fields, however, Belaunde agreed to cancel a \$144-million debt which IPC allegedly owed Peru in unpaid taxes. This and other concessions to IPC in the agreement quickly led to strident attacks on Belaunde from a wide assortment of nationalists. Even Belaunde's own party split over the President's "sellout" to the IPC.

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With Belaunde under attack from all sides, General Juan Velasco Alvarado, the commanding general of the Army, and his fellow officers, judged the time appropriate to initiate a long-planned coup. The controversy over Belaunde's agreement with the IPC was the immediate pretext, but military fear of an APRA victory in the elections scheduled for June 1969 was also a compelling factor. On the morning of 3 October 1968, Lima-based troops took control of the capital and sent Belaunde into exile. By prearrangement, the troops proclaimed the creation of a governing junta composed of the commanders of the army, navy, and air force. This junta shortly named General Velasco as the new President and he then proceeded to select a cabinet composed entirely of high-ranking military officers.

Since taking power, the military government has had no real challenge to its control. The Velasco administration has implemented some far-reaching social and economic reforms, sometimes to the detriment of the over-all economic situation. It has broadened Peru's foreign contacts and, within the past year or so, has moved to improve its relations with the US. President Velasco has stated that the military intends to remain in power for at least five years, and no date has been set for elections. In June 1971 the National System for Support for Social Mobilization was established, headed by a cabinet-level military officer. There are some indications that this organization eventually could be the basis for a military-backed political party, but there is also a strong body of opinion that favors a complete withdrawal from politics by the military after the "revolution" is completed.

Structure and functioning of government

Since the military coup on 3 October 1968, the congress has been disbanded and the government has been operating under the terms of an eleven-article document entitled the "Statutes of Revolution." The Constitution of 1933, which served as the basis of government until that time, has not been entirely discarded, but parts of it have been set aside by the Statutes. The military government has said that it will reform the Constitution, but has not revealed many of its plans so far.

The Statutes of the Revolution present only the bare outline of the military government. The document designates the function and composition of the key posts and assigns to the President both the executive powers granted in the 1933 Constitution and the power to legislate. The commanders of the army, navy, and air force are identified by the Statutes as a revolutionary junta, which has assumed the responsibility of carrying out the Statutes and the plans of the armed forces. The junta members hold the positions of ministers of war, navy, and aeronautics in the Council of Ministers, and the minister of war serves as prime minister and presides over the cabinet. The junta also approves the President's selection of other members of the cabinet, excluding the three defense posts. Cabinet ministers may be either members of the armed forces or civilians. The President,

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according to Statute 6, exercises the functions that the Constitution grants to the chief executive and, with the approval of the cabinet, exercises legislative power by issuing law decrees jointly with the junta.

Although the Statutes appear to give the President a position subordinate to that of the junta, Velasco has dominated its members from the first days of the administration. The inner workings of the relationship between the President and the junta cannot be determined from the available information, but as time passes the junta members do not seem to have significantly greater influence over the decision making process than any of the other members of the all-military cabinet. President Velasco has not announced when he will give up the office, but has made it quite clear that his regime will not be a mere caretaker government and that the military intends to stay in power as long as it takes to effect a complete transformation of the society.

The military government has passed legislation in the form of decrees. Some decrees apparently are initiated and become effective with the approval of General Velasco and the junta only. Others seem to require the consultative or deliberative vote of the cabinet. Those in the latter category are proposed by the cabinet minister concerned and submitted to the President through the Advisory Committee to the Presidency (COAP). A final draft is put on the agenda of the cabinet if the President wishes. The COAP is the coordinating body where the final legislative product is prepared for approval by the President and the cabinet. It is a key organization, particularly in the timing and emphasis of new legislation promulgated by the military government. It does not originate policy, however. It is composed of military officers, mostly from the army, who were drawn from the group at the Center for Advanced Military Studies that was largely responsible for drafting the government's manifesto and the Statutes of the Revolution. Working with the COAP are civilian advisers to the President whose salaries are paid from the presidential budget.

Justice is administered by a single national court system, which is highly centralized. The Supreme Court heads the regular judicial hierarchy. Below it in order of authority are the superior courts, the courts of first instance, and the justices of the peace. In addition to the regular court system, there are military tribunals and labor courts to handle worker-employer disputes.

The country is divided into 24 Departments, including the so-called constitutional province of Callao. The departments are divided into provinces, and these in turn into districts. The number of departments is fixed at

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24, but the number of provinces and districts into which each department is divided is generally determined by area and population density.

Political dynamics—parties and electoral system

Until the 1920s the Peruvian political system was one of the most static in South America. The balance of political power was shared between the small, but extremely wealthy national elite and the top military leaders. The latter helped preserve power for the oligarchy, while receiving in return a fairly generous military budget. This power coalition was often divided by factional loyalties and competing economic interests, and the governments it controlled often rose and fell by force.

By the 1920s, basic changes in the structure of society were under way. A significant middle class and the beginning of an organized urban working class was developing, portending the end of the traditional duality of the elite and the military. The regime of Augusto B. Leguia (1919-30), brought to power by support from the lower classes and the middle class business and professional elements, was a harbinger of political change, for it marked the end of total domination by the elite.

In the 1920s and 1930s social change was also reflected in the growth of movements that sought to align the more radical elements of the middle class with the urban working class. These included socialist, Communist, labor and student movements and, most notably, the American Popular Revolutionary Alliance (APRA) which has been the only grass-roots political force since the 1930s. In the 1950s, several new reform parties arose, notably the Popular Action (AP) party, and the Christian Democrat Party (PDC), as well as a number of smaller splinter parties on the left. The urban labor and student movements as well began to grow in numbers and militancy. Moreover, changes within the military led it to question its traditional role as ally to the upper classes, and its leaders became increasingly committed to the cause of orderly social reform.

Since the October 1968 coup, organized political activity by civilian parties has almost ceased. APRA and the more moderate wing of former President Belaunde's Popular Action Party can be considered parties, although political opposition to the Velasco government has been remarkably restricted. Most of the parties further to the left of the political spectrum, including the radical wing of the AP, the Christian Democrats, and the Communist Party, have generally supported the Velasco government. The government's announced intention to postpone elections for at least five

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years has forced all party leaders to face up to the possibility of being out of office for a lengthy period. Some have been quietly negotiating for official positions within the regime in exchange for supporting it.

APRA, founded by Victor Raul Haya de la Torre in 1924 during his exile in Mexico, was one of the first national revolutionary movements to have an important impact in Latin America. It is one of the few parties in Peruvian history to have a solid organization, an ideology, and broad popular support. Since its founding, APRA has been and remains the largest single party. It draws support from middle class elements, intellectuals, and especially from the labor movement.

APRA was conceived as a continental movement, embracing all of *mestizo* Latin America. This goal, however, was never achieved. The party was strongly influenced in its formative stages by Marxist doctrine and by the Russian and Mexican revolutions. From the beginning, however, it reserved the right to modify Marxist doctrine to fit the Latin American context, and in 1928 APRA leaders declared an open break with international Communism.

The philosophy of APRA envisions economic protectionism for Peru but does not espouse radical economic nationalism. In agriculture, APRA has called for land reform and an extensive system of cooperatives to emancipate the rural lower classes. The party is concerned with the economic and social integration of the indigenous population into the national scene, a vigorous labor movement and the full participation of laboring groups in political life, the protection of rural workers, social security legislation, free and adequate secondary education, and reform of the universities. Apristas envision a legislature based on a system of "functional democracy," in which would sit elected representatives of all occupational categories such as employers, employees, and the professions.

Although APRA has commanded considerable power within the government at various times, the party has never been able to implement its programs. Moreover, since the late 1950s it has slowly but continually lost support, as many of its younger elements have splintered off to form dissident Aprista groups. Newer parties such as the AP and the PDC have increasingly challenged APRA's supremacy within the non-Communist left. Reliable data are not available on total party membership, but the major source of APRA's organized strength is still in the labor movement, although it is now being seriously challenged in this field by the Communist-led General Confederation of Peruvian Workers (CGTP).

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Although the Velasco government has incorporated many of APRA's programs into its own, there seems to be little chance that the two will begin to cooperate. The coup was at least partly conceived to prevent the Apristas from gaining power through an electoral victory in 1969. APRA has consistently demanded a return to constitutional government, but the party leadership has discouraged both the advocates of violent opposition and those who want to cooperate with the military.

The Popular Action Party (AP), the second largest political party, was organized shortly after the 1956 presidential election in an attempt to consolidate the various elements that had supported Fernando Belaunde's unsuccessful bid for the presidency. Belaunde's major purpose was to develop a popular movement to rival APRA and to win the presidency for himself. AP's program is somewhat similar to that of APRA in that it gives high priority to economic development and planning, agrarian reform, and integration of the Indian population into national society.

The AP split into two factions in September 1968 over the International Petroleum Company (IPC) issue. The more orthodox wing consists of those who support ex-President Belaunde. The radical wing is made up of those supporting Edgardo Seoane, former vice president under Belaunde. The Seoanistas, who are cooperating with the Velasco government, still regard Belaunde's followers as traitors for having entered into the agreement of 13 August 1968 with the IPC, and there appears no possibility of a reconciliation in the foreseeable future. The split cost the party some of its most able and attractive members and it lacks the top-flight leadership required to rebuild it into an effective political organization. The latent hostility of the military, scarcity of funds, loss of patronage, and low prestige are additional factors preventing the party's resurgence as a united organization.

The small Christian Democratic Party (PDC) was formed in 1955 by professional and intellectual members of the middle class. Originally a centrist party, the PDC later tried to cultivate a left-of-center electorate. The electoral alliance it formed in 1963 with the AP resulted in the victory of Belaunde, and the PDC later maintained a parliamentary alliance with the AP that carried over into the executive branch. Two PDC members were in Belaunde's cabinet. Unlike the AP, however, the PDC is not an aggregation of personal followers of a political hero but has party principles based on the social Papal Encyclicals and on the models provided by the older Christian

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Democratic parties in Chile and Western Europe. There are no reliable statistics on its present membership, but it was the fourth ranking party in congress before the 1968 coup. Its influence is disproportionate to its 1963 electoral showing because of its alliance with the AP in 1963 and the high quality of its congressional leadership. In mid-December 1966, a group of dissident moderate Christian Democrats defected and formed a separate Popular Christian Party (PPC). The split was not unexpected. For some time the PDC had been divided into two major factions—a more numerous radical faction associated with former party president Hector Cornejo Chavez, and a smaller moderate faction composed of most of the party's original founders, such as Luis Bedoya Reyes and Javier Correa Elias. Since the coup the PDC has moved further to the left and has worked closely with the military government on several issues.

The major asset of the more moderate PPC appears to be Lima's former mayor Luis Bedoya, although the party has other prestigious leaders who may attract a following. Most of its founding members are well-to-do, successful businessmen and professionals, whereas the backbone of the PDC is mostly students, intellectuals, and younger, self-employed professionals. The PPC's greatest hope for national office and influence in the future rests on the possibility of the party entering a coalition. As the leading critic of the military government until his elected term as mayor of Lima expired in December 1969, Bedoya has enhanced his credentials as a political leader. At the same time he apparently has not completely alienated the military, and probably still has good prospects as a future leader of Peru.

Security systems

Peru has three civilian organizations charged with the responsibility for maintaining public law and order—the Civil Guard, The Republican Guard, and the Investigations Police of Peru. Since April 1969 these three services have been under the direct control of the newly created Interior Ministry.

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The Civil Guard is a uniformed national police force responsible for the enforcement of all laws relating to the maintenance of public order and peace. Authorized 21,500 officers and men, the Civil Guard performs the regular duties of a civil police force and is also responsible for action in all cases of public disorder. It is commanded by a career Civil Guard officer and its headquarters are in Lima. For a nine-month period (April to December 1969), its budget was about \$43.4 million.

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The Republican Guard, with about 4,500 officers and men, is directly responsible for protecting government buildings and other vital installations, for providing guards for Peru's prisons, and for guarding some of its frontiers. It also reinforces the Civil Guard when required and has established a special antisubversive unit. The most senior officers of the Guard are regular army officers detailed to it for regular tours of duty. Officers of the rank of lieutenant colonel and below are career officers in the Republican Guard. Its headquarters are in Lima and its budget for nine months in 1969 was a little over \$8 million.

The Peruvian Investigations Police (PIP) is a semiautonomous plain-clothes force operating under the Ministry of Interior. The PIP, roughly equivalent to the Federal Bureau of Investigation, is composed of about 4,000 men charged with investigating criminal disorders and subversive activities. The PIP is also expected to provide advance warning of impending disturbances so that the Civil Guard can take effective action.

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25X1C In addition, the PIP recently has taken an active role in destroying illegal cocaine laboratories and arresting smugglers of illegal narcotics. The Director of the PIP is directly subordinate to the Minister of Interior. The PIP also maintains investigative units in the intelligence and military police sections of the armed forces and at some Civil Guard posts in areas where the PIP maintains no posts. The PIP's budget for nine months in 1969 was about \$9.4 million.

Although the Civil Guard and the PIP constitute Peru's first line of defense for internal security, they fail to achieve their full operations potential principally because of inadequate logistical and operational support. Thus far, both have demonstrated an adequate operational capability in the cities, but they have not yet been tested by prolonged or intensive urban terrorist activity.

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IV. SUBVERSION

The Communist Party and front groups

Although Peru's social and economic problems cause discontent and afford the opportunity for continuous exploitation, the Communist movement has been generally weak and fractionalized. It has not had legal status because of the constitutional prohibition against political parties that have international affiliation.

The Communist Party of Peru (PCP), originally known as the Peruvian Socialist Party, was founded in 1930. In 1962 the party split into pro-Moscow and pro-Peking factions at the party's Fourth National Congress. The split was formalized in January 1964 when the rival factions held separate conferences in which each faction expelled the leaders of the other. After the split, the two factions set up separate organizations, each claiming to be the authentic Communist Party. The continuing bitter quarrel between the two groups has dissipated their energies and has produced deep dissatisfaction among Communist and pro-Communist youth.

The pro-Soviet Communist Party (PCP/Soviet) has an estimated membership of 2,000 with about 10,000 sympathizers. The party's leaders have favored a gradual approach to its objective of class revolution, to be carried out by the penetration of key groups, the political system, and the government. The PCP/Soviet strategy in its relations with the Velasco government appears to be to support the government's reform program whenever possible and to oppose the government when it seems to be straying from the revolutionary path. At a plenum of the Central Committee in July 1971 the party decided to try to establish good contacts with the military, in particular the army, and to form an "anti-imperialist" front with dissidents from the Popular Action and Christian Democratic parties.

In recent years, Communist influence has been most noticeable in the universities, although some of the social and economic reforms of the military government have begun to undercut this support. In addition, there is a tendency for students to become considerably less radical after graduation. Despite this looseness of ties between the party and the majority of its student supporters, the student leadership is usually firm in its conviction and dedicated to improving the party's position at the universities.

The pro-Soviet Communist Party has accelerated its activities in the labor field since forming the General Confederation of Peruvian Workers

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(CGTP) in June 1968, and particularly since the military took over the government in October 1968. A paper prepared by the secretary general of the CGTP in November 1970 estimated that the CGTP represented about 140,000 workers, slightly more than the APRA-controlled confederation. The growth of the CGTP has been tolerated, and in some cases indirectly assisted, by the military government, which sees the organization as a means of neutralizing APRA. Recently, however, the government has become irritated by CGTP-led labor agitation, in particular at government-owned installations. At the Central Committee meeting in July 1971 the party decided to try to keep union disputes within "reasonable" bounds.

There is strong evidence that the CGTP receives financial aid from the USSR either through the PCP/Soviet or the Communist-controlled World Federation of Trade Unions. Such funds apparently were used in 1969 by the CGTP to carry on an intensive organizing campaign with the objective of attaining official recognition from the Ministry of Labor.

The pro-Chinese section of the PCP has split into three factions. As of December 1970 it was estimated to have a total of about 1,200 members, of whom 500 were militants. In general, the pro-Chinese Communists concentrate their activities in the universities. They are most active in Cuzco, Puno, and Piura.

Other far left parties

The release in December 1970 of political prisoners as a result of the general amnesty has given impetus to the splintered leftist groups, most of which espouse violence as a necessary revolutionary tactic. Efforts at unity now are being made under the direction of the former guerrilla leaders. The extreme left now is a conglomerate of socialist and Communist-oriented factions: disillusioned Apristas who broke with APRA and formed the Leftist Revolutionary Movement (MIR); the Revolutionary Vanguard (VR), consisting of former Communist Party members; the National Liberation Army (ELN); and various Maoist splinter groups.

Although there is no unified political theory, in general most extreme leftists believe that the campesinos should play an important role in the revolution. These leftists, believing that the military government's reforms are only half-hearted efforts to solve the country's basic problems, are nonetheless fearful of being undercut by these reforms. They are therefore seeking to stimulate "the masses" toward greater political militancy.

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Insurgency movements

Peru has had only one active insurgent group—the Movement of the Revolutionary Left (MIR). Originally known as Rebel APRA (APRA Rebelde) after its expulsion from APRA, it gathered a variety of extreme leftists together in the early 1960s, sending a number of them to Cuba and other countries for guerrilla training. In mid-1965 the MIR began an aggressive guerrilla campaign that lasted until early 1966, when it was completely routed by government forces, its ranks decimated, and its leaders either killed, imprisoned, or forced into exile. A small remnant of the party continues to be active, however. As recently as September 1969 nine members of the MIR were arrested and found to possess arms, ammunition, explosives, and Communist propaganda.

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VI. ARMED FORCES

The armed forces of Peru, which have a strength of about 49,800 men, consist of an army of 35,000, a navy of 9,500, and an air force of 5,300. In time of war or other national emergency they would be supplemented by two national police forces—the Civil Guard of about 21,500 men and the Republican Guard of 4,500 men. The army is capable of maintaining internal security and is deployed defensively to protect primarily the vital northern and central coastal areas of the country.

Strengths of the armed forces include the well-educated and reasonably well-trained officer corps, good morale, and fairly high esprit de corps. Weaknesses include dependence upon foreign sources for all major and many minor military items, low pay, an unintegrated and inefficient logistical system, lack of a trained noncommissioned officer corps, and ranks filled largely with illiterate conscripts.

The President of the Republic is the commander in chief of the armed forces. He presides over the Permanent Council of National Defense, the highest organization concerned with national security. The Council includes the prime minister, the ministers of war, navy, aeronautics, interior, foreign relations, and finance, and the president of the Joint Command of the Armed Forces. The Council determines national defense policy, coordinates the actions of the governmental agencies in executing defense plans, and determines what resources are necessary and the means of providing them.

The Joint Command of the Armed Forces is charged with planning and coordinating the activities of the army, navy, and air force but has no command authority. It is composed of a president who is a military officer and the military chiefs of the three services appointed by the President. It is responsible for advising the President and the Permanent Council of National Defense on defense problems, especially on preparations for war and on the conduct of wartime operations.

The military government that came to power in October 1968 announced plans for reorganizing several ministries. Most of the plans were implemented on 1 April 1969, but the proposal to merge the Ministries of War, Navy, and Aeronautics into a single Ministry of National Defense has not been effected, presumably because of inter-service jealousy. For that reason, final responsibility and authority in army, navy, and air force matters remains vested, respectively, in the three coequal ministers, who are commanders of their services. The Civil Guard and Republican Guard are normally

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under the minister of interior, but come under control of the army in time of national emergency.

The army, with 35,000 men, has the missions of defending the country and of maintaining internal security in conjunction with the police forces. Combat effectiveness is low by US standards but is above average for Latin American armed forces. The army is capable of maintaining internal security and of conducting effective short-term offensive operations against any of its neighbors. It could not, however, defend the country against attack by a major power. The officer corps is well educated, intelligent, and reasonably well trained. Enlisted men are loyal, inured to hardship, and are also reasonably well trained considering the short duration of their obligated service. Combat effectiveness is handicapped by the absence of a career noncommissioned officer corps, inadequate unit training, and an insufficient number of combined arms exercises. In its civic action work the army is constructing highways, bridges, and airstrips, and is working at other community improvements. Under a program instituted in April 1962, industrial training is given to some conscripts prior to release from service in order to give them skills that are generally needed in the country.

In South America, the navy ranks fourth in size (9,500 men) and general effectiveness, and its submarine force is the best. The navy is primarily maritime, but has a small fluvial force in the remote Amazon headwaters of the northeast. Its missions are to defend the 1,500-mile coastline, protect shipping, patrol the inland waters, and assist in the defense of the Western Hemisphere by providing patrol, escort, and antisubmarine warfare support. The navy also engages in civic action such as commercial shipping, chiefly in the Amazon Basin. Its effectiveness is handicapped by limited operational experience and the generally poor condition of equipment. It is the navy that seizes tuna boats that fish without licenses within Peru's claimed 200-mile territorial limit.

Subordinated to the navy is the Mobile Artillery Group (marines), which was established in 1959. Until 1966, strength stood at 1 company of about 250 men, but during that year it was raised to about 700. In 1968, its strength was reduced to 600, and was redesignated the Naval Infantry. All marines are volunteers. Officers are naval line officers who request assignment to the corps, and enlisted men enlist directly. The mission of the Marine Corps entails security, especially of naval installations and amphibious warfare.

Peru also has a Naval Air Service, which was established in 1963. It is an integral part of the navy, and its commander is immediately subordinate to

the Commander of the Navy, but he is under the staff supervision of the Director of the Naval Air Service. Loosely organized, it has only 17 pilots and 9 aircraft. It has no air facility of its own but operates out of Jorge Chavez International Airport near Lima. The Naval Air Service provides shuttle passenger service, a small amount of logistic support to the Amazon base near Iquitos, and some offshore aerial surveillance.

Peru's air force is one of the best in South America, in both its defensive and offensive capabilities. The air force has effectively assisted ground forces in putting down disorders and in maintaining internal security. It could provide effective close air support for ground troops in operations against Ecuador, but against Chile its support of any operations would be severely handicapped by the lack of support facilities. In addition, the air force provides commercial and military air transport, monitors government aerial photography activities, and assists in the economic and social development of the country. The air force has a personnel strength of 5,300 including 800 officers, 2,000 noncommissioned officers, and 2,500 privates. There are more than 330 pilots, about 30% of whom are jet qualified. In January 1971 the inventory totaled 236 aircraft, including 99 jets. These include 16 Mirage-5 supersonic jet fighters purchased from France in 1967.

Manpower

As of 1 January 1971, Peru had about 3,180,000 males 15-49 years old, about 68% of them fit for military service. Approximately 125,000 males reach conscription age (20) annually. All male citizens age 18-50 years are liable for military service, but peacetime conscription is limited to men 20-25 years of age. Induction is accomplished in four increments annually (three in jungle areas), and the term of conscript service is two years. Because of military training received in school, high school graduates who are drafted are obliged to serve only one year. College graduates with military training are exempted from peacetime conscription for the same reason. As a result, those actually called up are usually the poor and illiterate. Some 15,000 men are conscripted annually and conscripts constitute over 75% of the army, about 50% of the navy, and nearly 30% of the air force.

The armed forces' strength has slowly increased since the late 1940s, growing at less than half the rate of the general population increase. Since 1960, total armed forces strength has increased about 7,950, or 19%. The army's increase has been only 15%, while that of the navy has been 32% and that of the air force has been 25%.

Military budget

Under the direction of its minister, each of the three services prepares its budget estimate for the fiscal year. The three service budgets and those of other government departments are coordinated by the minister of finance and submitted to the President and cabinet for review. Since the suspension of the national legislature after the October 1968 coup, all budgets receive final approval by the President, with the advice of the cabinet, and are published by decree.

The total military budget for fiscal year ending 31 December 1970 was \$192,826,872—17.2% of the total central government budget. The military budget as a percent of GNP was 3%.

Logistics

Peru has no joint military logistics organization. Each service is responsible for its own procurement, storage, distribution, and supply. The services are dependent chiefly on appropriated funds included in the formal budget but also partly on funds outside the regular budget.

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VII. FOREIGN RELATIONS

Nationalism and a strong desire to demonstrate Peru's independence of the US have been the primary determining factors in the Velasco government's foreign policy. Peru's traditionally close ties with the US were severely strained as a result of the expropriation of the IPC just six days after the military ousted President Belaunde. Relations between the two countries have improved somewhat, but the effects of the controversy, which remains unresolved, continue to influence the military government's foreign policy.

Another major irritant in US-Peruvian relations, also involving Peruvian nationalism, is Peru's claim to a 200-mile limit to its territorial sea. This claim has resulted in the seizure and fining of several US tuna boats fishing within the 200 miles. In February 1969 sales of US military equipment to Peru were suspended in accordance with US law following the seizure and fining of a US tuna boat. The Peruvian reaction was to eject the US Military Advisory Group from the country. A compromise was reached and a small US military mission was allowed to stay when the US agreed in July 1969 to lift its suspension on military sales. In return, Peru agreed to join Chile and Ecuador, which have similar territorial waters claims, for a conference with the US on matters pertaining to fishing. Seeking international support for this claim has become a major objective of Peru's diplomatic missions abroad. In 1970 only one tuna boat was seized but the mandatory suspension of foreign military sales went into effect.

At the same time that Peru was experiencing its most serious difficulties with the US, President Velasco was moving rapidly ahead with a policy of establishing closer relations with the Soviet Union and the countries of Eastern Europe. There are several interrelated motivations for this policy, which actually began during the Belaunde administration. One is the Peruvian desire to express independence of the US in foreign policy areas. In addition, Peru, like many other Latin American countries, hopes to gain access to what it sees as a large potential market for its goods. In Peru's case there apparently was also the hope that some of the lost US economic assistance would be replaced by technical and economic assistance from the Communist countries.

Diplomatic relations have been established with the USSR, Hungary, Bulgaria, Poland, Czechoslovakia, Romania, and Yugoslavia, and Peru has also sought closer trade relations with most of them. The USSR and some of the East European countries have extended credits to Peru for the purchase

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of machinery but there has been no direct Communist economic assistance to Peru. In August 1970 Peru announced its intention to establish diplomatic relations with Communist China; there is some trade at present.

Peru does not have diplomatic relations with Cuba, although there is some trade. The Prado government broke relations with the Castro government in December 1960 prior to the US severance of relations, and called for strong OAS counteraction to Castro. The Belaunde administration was not as outspoken in general, although it remained willing to adhere to the anti-Castro resolutions of the OAS majority. The Velasco government has stated several times that it favors the reintegration of Cuba into the inter-American system.

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VIII. US INTERESTS

In terms of size, population, strategic location, and US economic and commercial interests, Peru ranks among the first five Latin American countries in importance to the US. Peru is the seventh largest export market in Latin America for US products, and the fourth largest source of imports, which consist primarily of important raw materials.

Peru has recently taken on an even greater significance for the US. Its present attempts to bring about structural reforms and accelerated modernization under an authoritarian military government that follows aggressive, nationalistic policies have directly and adversely affected important private US business interests.

US investment and economic and technical assistance

The US traditionally has been Peru's major source of both private and official foreign capital, although little foreign investment from any source has gone into Peru since the IPC expropriation. The book value of US private investment amounted to \$692 million in 1968, an estimated three fourths of total foreign investment. A large share of private foreign capital is invested in mining and metal-processing.

Official economic and military assistance authorized by the US Government during fiscal years 1946 to 1969 totaled some \$764 million. More than one third of this assistance was provided on a grant basis. Because of Peru's purchase of supersonic jet aircraft from France in 1967 and its failure thus far to compensate IPC for expropriating its properties in 1968, the US Government has authorized no new development loans since 1967. Disbursements on earlier loans and some grant assistance have continued, however. As of mid-1968, Peru also had received a total of \$358 million in economic loans from international financial organizations, mainly the Bank for Reconstruction and Development and the Inter-American Development Bank.

IX. CHRONOLOGY AND TABULAR DATA

CHRONOLOGY

- | | |
|-----------|--|
| 1879-1883 | War of the Pacific; Peru and Bolivia allied against Chile; Peru loses southern territory to Chile. |
| 1924 | Victor Raul Haya de la Torre founds the American Popular Revolutionary Alliance (APRA). |
| 1931 | (October) APRA wins election but is prohibited from assuming power; the party is outlawed. |
| 1941 | Peru defeats Ecuador in short boundary war and obtains control over major portion of disputed territory under the 1942 Rio Protocol. |
| 1945 | First free elections, APRA-supported candidates win presidency and control of Congress. |
| 1948 | (October) Armed Forces put down APRA revolt, establish a military junta, Communist Party of Peru declared illegal. |
| 1950 | (2 July) General Manuel Odria elected president. |
| 1956 | (17 June) Former President Manuel Prado y Ugarteche re-elected with APRA backing. |
| 1960 | (29 December) Peru severs relations with Cuba. |
| 1962 | (18 July) Military seizes power after indecisive election |
| 1963 | (9 June) Fernando Belaunde Terry, representing the Popular Action Party (AP), elected president in free elections.

(15 December) First municipal elections in over 40 years reaffirm popular support for Belaunde's AP. |
| 1965 | (June) Guerrilla activity breaks out. |

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- 1966 (May) Guerrillas defeated.
- 1967 (September) The currency is drastically devalued.
- (October) Peru signs contract with France for Mirage-5 super-sonic jets.
- 1968 (13 August) The "Act of Talara" signed with the International Petroleum Company, setting off a nationalist controversy.
- (3 October) President Belaunde ousted in a military coup; General Juan Velasco Alvarado assumes presidency of military government.
- (9 October) Major assets of the International Petroleum Company are expropriated.
- 1969 (February) Relations are restored with the USSR.
- (6 February) Velasco declares \$690,524,283 debt is owed Peru by International Petroleum Company for "unjust enrichment."
- (14 February) Peruvian Navy fires on one, seizes another US tuna boat.
- (9 April) US announced "deferral" of economic sanctions against Peru under the Hickenlooper Amendment and the Sugar Act.
- (20 May) Reacting to publicity over suspension of US military sales to Peru, Velasco calls for withdrawal of US military mission and declares that Governor Rockefeller's scheduled visit would be "inopportune."
- (24 June) Sweeping agrarian reform law decreed.
- (30 September) Peru and USSR announce ratification of two-year trade agreement.
- (19 December) Peru signs contract under which Southern Peru Copper Company is to invest up to \$500 million in its rich Cuajone concession.

- (December) Supreme Court is purged and entire judiciary reorganized.
- 1970 (6 April) Velasco unveils new plans for controlling foreign investment.
- (31 May) Disastrous earthquake devastates area north of Lima; assistance pours in from all over the world, including Cuba, Communist China and Soviet Union.
- (28-30 June) Mrs. Nixon visits Peru to present personally US aid to earthquake area.
- 1971 (January) Government recognizes Communist-controlled labor federation, giving it certain legal rights.
- (28 April) Trade agreement signed with Communist China.
- (August) Peru announces its intention to open diplomatic relations with Communist China.

TABULAR DATA

Holidays and Significant Dates

New Year's Day	1 January
Epiphany	6 January
St. Joseph's	19 March
Holy Thursday	Movable
Good Friday	Movable
Labor Day	1 May
Ascension Day	19 May
Corpus Christi	9 June
Indian Day	24 June
SS Peter and Paul	29 June
Independence Day	28 July
Assumption	15 August
St. Rosa de Lima Day	30 August
Our Lady of Mercy	24 September
Day of National Dignity	9 October
Discovery of America	12 October
All Saints	1 November
Battle of Tarapaca Day	27 November
Immaculate Conception	8 December
Christmas	25 December

Selected Factual Data

LAND

496,000 sq. mi. (other estimates range as low as 482,000 sq. mi.); 2% cropland; 14% meadows and pastures; 55% forested; 29% urban, waste, other (1962)

PEOPLE

Population: 14,013,000 (excluding Indian jungle population which was estimated at 100,830 in 1961); males 15-49, 3,180,000; 1,955,000 fit for military service; average number currently reaching military age (20) annually, 125,000

Ethnic divisions: 46% Indian; 38% mestizo (white-Indian); 15% white; 1% Negro, Japanese, Chinese

Religion: predominantly Roman Catholic

Language: Spanish, Quechua, Aymara

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No Foreign Dissem

Literacy: 45% to 50%
Labor force: 3.5 million (1967); 46% agriculture, 17% services, 14% manufacturing, 9% trade, 4% construction, 4% transportation, 2% mining, 4% other
Organized labor: 25% of labor force

GOVERNMENT

Legal name: Republic of Peru
Capital: Lima
Political subdivisions: 23 departments with limited autonomy plus constitutional Province of Callao
Type: unitary constitutional republic
Legal system: based on civil law system; military government rules by decree; legal education at the National Universities in Lima, in Trujillo, in Arequipa, and in Cuzco; has not accepted compulsory ICJ jurisdiction
Branches: executive, legislative, judicial; congress disbanded after 3 October 1968 ouster of President Fernando Belaunde Terry
Government leader: President Juan Velasco Alvarado
Suffrage: literacy requirement
Elections: none scheduled
Political parties and leaders: Popular Action Party (AP), Fernando Belaunde Terry in exile; Christian Democratic Party (PDC), Hector Cornejo Chavez; American Popular Revolutionary Alliance (APRA), Victor Raul Haya de la Torre; Popular Christian Party (PPC), Luis Bedoya Reyes
Communists: 5,000; Communist sympathizers 25,000
Member of: UN (IAEA), OAS, LAFTA, GATT, IADB

ECONOMY

GNP: \$7.3 billion (1969), \$520 per capita; 72% private consumption, 10% public consumption, 13% gross investment; 5% net foreign balance; real growth rate 1970, 7%
Agriculture: main crops—wheat, corn, potatoes, beans, barley, cotton, sugarcane; imports wheat, meat, lard and oils, rice, corn; caloric intake, 2,300 calories per day per capita (1964)
Major industries: mining of metals, petroleum, fishing, textiles and clothing, food processing, cement
Electric power: 2 million kw. capacity (1969 est.); 4.7 billion kw.-hr. produced (1969) 442 kw.-hr. per capita (1969)
Exports: \$1,048 million (f.o.b. 1970); fish and fish products, copper, silver, iron, cotton, sugar, lead, zinc, petroleum, coffee

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Imports: \$618 million (f.o.b. 1970); foodstuffs, machinery, transport equipment, iron and steel semimanufactures, chemicals, pharmaceuticals

Trade: exports US 33%, Western Europe 42%, Japan 14%, Latin America 6%; imports US 32%, Western Europe 33%, Latin America 17%, Japan 6%

Aid:

Economic—extensions from US (FY46-69), \$456.6 million loans, \$164.0 million grants; from international organizations (FY46-67), \$325.2 million; from other Western countries (1960-66), \$43.4 million

Military—assistance from US (FY49-69), \$143.7 million

Fiscal year: calendar year

COMMUNICATIONS

Railroads: approx. 2,144 mi.; 1,800 mi. 4' 8 1/2" gage; 50 mi. 3' 6" gage; 560 mi. 3' 0" gage; 40 mi. 2' 5 1/2" gage; 80 mi. 1' 1 5/8" gage; 9 mi. double track; 3 mi. electrified (1965)

Highways: 31,100 mi.; 3,000 mi. paved, 5,400 mi. gravel or crushed stone, 8,500 mi. improved earth, 14,200 mi. unimproved earth

Inland waterways: 5,400 mi. of navigable tributaries of Amazon River system and 130 mi. Lake Titicaca

Pipelines: crude oil, 206 mi.; natural gas, 16 mi.

Ports: 1 principal (Callao/Lima), 4 secondary, 25 minor

Merchant marine: 37 ships (1,000 GRT or over) totaling 291,000 GRT, 407,000 DWT; includes 25 cargo, 9 tanker, 1 specialized carrier and 3 naval tankers sometimes used commercially

Civil air: 46 major transport aircraft

Airfields: 317 total, 271 usable; 15 with permanent-surface runways; 1 with runway over 12,000 ft.; 18 with runways 8,000-11,999 ft.; 50 with runways 4,000-7,999 ft.; 3 seaplane stations

Telecommunications: fairly adequate for most public requirements; new microwave relay system being improved; communications satellite ground station; 192,600 telephones; est. 2 million radio and 395,000 TV receivers; 217 AM, 7 FM, and 28 TV stations; 1 telegraph submarine cable

DEFENSE FORCES

Personnel: army 35,000, navy 9,500, air force 5,300, Civil Guard 21,500 (plus 384 civilians), Republican Guard 4,500

Major ground units: 3 corps headquarters, 11 divisions (7 light infantry, 1 airborne, 1 armored, 1 jungle, 1 cavalry), 1 special forces command (1 commando battalion, 1 parachute battalion), 1 separate detachment (1

armored cavalry regiment, 1 infantry battalion), 2 cavalry regiments and 9 battalions (2 field artillery, 1 antiaircraft artillery, 5 engineer, 1 infantry)

Ships: 2 cruisers, 2 destroyers, 3 destroyer escorts, 4 submarines, 12 patrol, 4 mine warfare, 5 amphibious warfare ships, 4 amphibious warfare craft, 9 auxiliary, 25 service craft

Aircraft: 249 (99 jet), including 9 (nonjet) in naval air, 236 (99 jet) in air force and 4 (nonjet) in army

Supply: produces some small arms ammunition; otherwise relies principally on US; has recently acquired jet fighters and tanks from France

Military budget: for fiscal year ending 31 December 1970, \$192,826,872; about 17.2% of proposed central government budget.

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National Intelligence Survey (NIS) Material

The following sections of the NIS are relevant:
NIS Area 88 (Peru)

GENERAL SURVEY (May 1970)

- Sec 21 Military Geographic Regions (Nov 64)
- Sec 22 Coasts and Landing Beaches (Jun 63)
- Sec 23 Weather and Climate (Jan 56)
- Sec 24 Topography (Jul 64)
- Sec 25 Urban Areas (Jan 61)
- Sec 32 Highways (Dec 58)
- Sec 35 Ports and Naval Facilities (Feb 56)
- Sec 36 Merchant Marine (Nov 55)
- Sec 38 Telecommunications (Mar 67)
- Sec 41 Population (Nov 65)
- Sec 42 Characteristics of the People (Nov 65)
- Sec 43 Religion, Education, and Public Information (Jul 63)
- Sec 44 Manpower (Nov 64)
- Sec 45 Health and Sanitation (Dec 62)

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Sec 46 Welfare (May 65)
Sec 51 The Constitutional System (Jun 58)
Sec 52 Structure of the Government (Jan 59)
Sec 53 Political Dynamics (Oct 59)
Sec 54 Public Order and Safety (Oct 63)

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Sec 57 Subversion (Apr 57)
Sec 58 Propaganda (May 62)
Sec 61 Agriculture, Fisheries, and Forestry (Oct 62)
Sec 62F Fuels (Apr 68)
Sec 62P Electric Power (Apr 67)
Sec 63 Minerals and Metals (Oct 68)
Sec 64 Manufacturing and Construction (Oct 63)
Sec 65 Trade and Finance (Aug 68)
Sec 82 Naval Forces (Feb 57)
Sec 83 Air Forces (Aug 60)
Gazetteer (Feb 55)

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Map

The best available general reference maps are: Instituto Geografico Militar; *Republica del Peru*; 1:1,000,000, 1963; and International Petroleum Co., *Mapa de Carreteras de la Republica del Peru*, 1:2,570,000, 1958 (available also as CIA Map No. 39224 with some rail and road revisions).